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LA PAZ FOR A/DCM C LAMBERT

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TAGS: PREL PGOV ECON ETRD DR

SUBJECT: SCENESSETTER FOR THE SECRETARY'S VISIT TO THE DOMINICAN REPUBLIC

Classified By: CDA Roland Bullen, Reasons 1.4(b), (d)

1.(C) Embassy Santo Domingo welcomes you to the Dominican Republic -- the first visit of a Secretary of State in over 20 years. Your visit will reinforce our strong bilateral relationship that is based on extensive economic and commercial ties, military and law enforcement cooperation, and cultural links. President Fernandez canceled his trip to Brazil to attend the World Economic Forum in order to host your visit which comes at a time when he is facing increasing pressure to address the deteriorating economic situation, increasing violence and crime, and widespread corruption in the government. In addition to engaging the Dominicans on the Summit of the Americas, your visit is an opportunity to urge Fernandez to address corruption, which impedes counter-narcotics efforts, and fully implement CAFTA-DR.

Political Overview

¶2. (C) A longtime leader of the left-leaning Dominican Liberation Party (PLD), President Leonel Fernandez is a pragmatist who values the Dominican Republic's relations with the United States. He strongly supports regional trade and achieved the entry into force of the CAFTA-DR treaty that he inherited from his center-left predecessor. Fernandez established a thriving law practice, served as President of the Republic 1996-2000, founded the successful think tank FUNGLODE 2000-2004, and was re-elected for a second, non-consecutive term in 2004. Fernandez was re-elected in 2008 for his third term with 53 percent of the vote. The 2008 election demonstrated considerable progress of recent years in eliminating the election day fraud of the past; however, significant areas for improvement remain in the management of the campaign period and establishing a level playing field for the opposition. Since the election, the main opposition party, the Dominican Revolutionary Party (PRD), has suffered from internal dissension over the leadership of the party and has been largely ineffective.

¶3. (SBU) Fernandez's primary objective for his third term is the approval of a new constitution which is currently being considered by Congress. The PLD has a majority in both chambers of Congress, although it lacks the two-thirds majority needed to pass constitutional reform. With the goal of a "democratic revolution," the President proposed changes to the judiciary, electoral system, and many other areas. The amendment attracting the most interest would allow Presidents to complete two terms and then serve again after sitting out of office for four years. The opposition, and the President's rivals within the PLD party, want a transitory article included in the constitution to make clear that Fernandez cannot run for re-election in 2012. While not without controversy, this process is not expected to cause the political upheaval that constitutional change has in

Bolivia and Ecuador.

¶4. (C) While Fernandez is still fairly popular, his Administration is facing increasing criticism for failing to address widespread corruption and to deliver on promises to improve institutions and infrastructure throughout the country. Fernandez places a great deal of importance on social stability and peace and has not shown an inclination to upset the status quo. He has failed to utilize his significant political capital and strong majority in the Congress to tackle difficult reforms such as corruption and improving the health and education sectors. The Dominican Republic does not qualify for the Millennium Challenge Account based on extremely low scores on investing in people, especially in health and education, and the corruption index.

Economic Crisis

¶5. (C) The global economic crisis, and in particular the recession in the U.S., is beginning to have a serious impact on the Dominican economy. While official statistics are not yet available, there is evidence that exports, remittances and tourist arrivals are all down significantly. The GODR has been slow to address the economic situation. Recently, the Finance Minister acknowledged that the country may face a recession, but Fernandez has remained optimistic and has only spoken of slowing growth. The government has been widely criticized for a lack of transparency on economic data, which most assume means that the government is trying to hide negative news that would contradict the rosy three percent GDP growth the government has predicted. The government is facing a serious challenge in funding the fiscal deficit due to a steep reduction in revenues and the continuation of subsidies put into place prior to the 2008 presidential election. The GODR is seeking budget support funding from the Inter-American Development Bank (IBD) and the World Bank, but some members of the President's economic team remain opposed to seeking assistance from the International Monetary Fund.

¶6. (U) During the first quarter of the year, the Government has faced an increasing number of protests that, while not directly related to the international economic downturn, certainly contribute to the general unease in a time of economic and social uncertainty. Nearly all of the protests are local in nature and have as their demands small infrastructure improvements (principally roads) and improvements in services such as water and electricity. The opposition PRD has expressed support for the protesters' cause while denying a role in organizing the protests.

CAFTA-DR

¶7. (SBU) Since entry into force of CAFTA-DR in 2007, U.S. exports to the Dominican Republic and foreign direct investment have grown significantly. However, Dominican exports have not experienced the same growth as most products already received tariff-free entry under the Caribbean Basin Initiative. There is a perception among the Dominican public that CAFTA-DR has not benefitted the country since the price of consumer goods has not dropped. This is due, in part, to the lack of competition in the market and the fact that many basic food items such as rice and beans continue to be protected. The GODR needs to continue to make reforms to improve market liberalization and transparency in key areas of the economy including customs administration, protection of intellectual property rights, investment, financial services, and government procurement. While many of the laws have been passed, enforcement remains weak. The Embassy is concerned about reports of the failure of the GODR to implement lower tariff rates for imported vehicles as called for by the agreement and delays in admitting agriculture imports under the tariff rate quotas. USAID is providing trade capacity building assistance to public and private institutions to help facilitate trade, improve

competitiveness in key sectors, and increase private investment.

¶18. (SBU) Due to a difficult investment climate, the Embassy is often requested to provide advocacy on behalf of U.S. companies, including those owed money by the Government. There is an ongoing crisis in the electricity sector where government-owned distributors are unable to pay privately-owned (including U.S.) generators, due in part to electricity theft by large users and a government-controlled tariff structure. The Government subsidy to the sector was close to USD 1 billion in 2008. In October 2008, the USG abstained on a vote for an IBD loan to the sector as a result of the government's failure to implement reforms in the sector.

Law Enforcement, Military, and Corruption

¶19. (C) The Dominican Republic sits astride major South-North smuggling routes for both migrants and illegal narcotics and is, accordingly, a critical link in the U.S. war on transnational organized crime and terrorism. While the Dominican Government cooperates closely with the U.S. on counternarcotics, results have been mixed. Improvements in Dominican control over land, air, and maritime space appear transient and directly related in length and breadth to joint operations with U.S. law enforcement and/or military entities. Even with this assistance, Dominican borders will remain vulnerable to smuggling and to the transit of criminals and terrorists in the short term. Dominican officials have periodically criticized what they consider a drop in U.S. counternarcotics assistance in the Caribbean since the September 11 terrorist attack and have questioned the sufficiency of the USD 2.5 million allocated to the Dominican Republic from the Merida Initiative.

¶10. (C) The Government has made almost no progress in fighting corruption, which adversely affects all U.S. objectives. National institutions are weak and are permeated by corruption at nearly all levels. Credible studies suggest that, while the majority of Dominican citizens consider corruption a key issue, the majority also condone and practice petty corruption. The Dominican judiciary made important strides in 2008 with the conviction of several prominent bankers for fraud and embezzlement which led to a severe economic crisis in 2003. However, in December 2008, President Fernandez pardoned one of the people along with four others that had been convicted in a government corruption case. Fernandez was widely criticized for these pardons, which were made under very suspicious circumstances. Few believed the President's justification that he voided the convictions for humanitarian/health reasons, and a majority of the pardon board's members resigned in protest.

¶11. (C) Dominican counterparts maintain close, productive relationships with U.S. law enforcement representatives and the U.S. military. Cooperation is generally excellent in the areas of extraditions, counter-narcotics, illegal migration, and deportations. While the Fernandez administration is dedicated to the fight against trafficking in persons, it does not dedicate adequate resources to the protection of victims, nor has it sufficiently prosecuted high-level officials suspected of complicity in the practice.

International Issues

¶12. (C) Fernandez has cordial relations with Hugo Chavez of Venezuela, but in private he has expressed to us his concern about Chavez's erratic, anti-U.S. behavior. The Dominicans accepted the concessional financing of Venezuela's "Petrocaribe" program, but declined the Castro-Chavez proposal of establishing a binational oil company for it. (Note: As a country with no domestic oil production and a large budget deficit, the Dominican Republic highly values Petrocaribe. We have no doubt that that assistance

constrains the Fernandez Administration's ability to criticize openly Chavez's anti-democratic actions and regional troublemaking.)

¶13. (C) Fernandez continues to promote international assistance to Haiti, to counter instability, promote growth, and in this way to reduce illegal immigration to the Dominican Republic. Fernandez has a good personal relationship with Haitian President Preval, which could help mend historically strained ties between the Hispaniola neighbors. Haiti recently joined the Dominican Republic in naming its representatives to the Mixed Bilateral Commission.

The Commission, largely dormant since 1998, will address a broad range of issues with the Dominicans, including trade, education, crime, migration, and human rights. Haitians are critical of the treatment of the Haitian minority in the Dominican Republic, while Dominicans emphasize the burden they face as a developing country hosting a large migrant group.

¶14. (U) At the 2008 United Nations General Assembly, the Dominicans had a mixed voting record in key human rights votes. They voted with the U.S. to oppose "no action" motions that favored North Korea and Burma, but also unhelpfully abstained on several of the resolutions themselves.

BULLEN